DENISON

Denison Mines Limited
Annual Report 1975

A message from the Chairman

This report comes at a time when individual and corporate enterprise in Canada is being undercut by government economic policies. The traditional initiative and energy of businessmen, whether as heads of small companies or of large concerns, are being crippled by a punitive tax structure which rewards inefficiency.

Private capital has been portrayed as an "evil" force operating to the detriment of our economy. In fact, private capital and initiative are largely responsible for the benefits which most Canadians enjoy. Governments' misuse of scarce capital resources for wasteful, unproductive projects is the primary cause of many of our problems.

The active encouragement of the concept of a "cradle to grave" welfare state, combined with a negative tax structure, discourages people from working, thus creating unemployment and the need for costly welfare programs. The non-producing sector of society grows. Fewer citizens are left to bear an increasing tax burden. Productivity falls, and thus there is less national wealth to share.

Massive and erratic government involvement in the economy — the introduction of inefficient wasteful programs which result in costly overlapping bureaucracies — is the primary cause of inflation. The bureaucracies and the government have now become the masters of the people rather than the servants.

It is imperative, therefore, that Canadian business leaders question seriously not only the practices of our politicians but the philosophy which motivates them.

History and our own common sense tell us that government must serve the people, not people the government. Increasing opportunities for all Canadians depend on a system which rewards individual initiative. The responsibility of government is to formulate practical guidelines to enable Canadians to plan on a long-term basis. Management must be relieved of the political and bureaucratic pressure and be exposed to the healthy pressure of competition.

Our free western civilization was founded on a strong spiritual base derived from the Judeo-Christian concept. It is imperative that our economic and political thinking reflect these sound spiritual values. Policies which create unemployment — and a welfare system which rewards the lazy and inefficient — is as criminal, morally, as is neglect of the sick, the elderly and those generally in need.

Free enterprise has been tested and proven in Canada. In order to realize the future potential of our human and material resources, I believe that our government, rather than looking for some new type of society, should invigorate and stimulate the dynamic forces of free enterprise for the benefit of all Canadians.

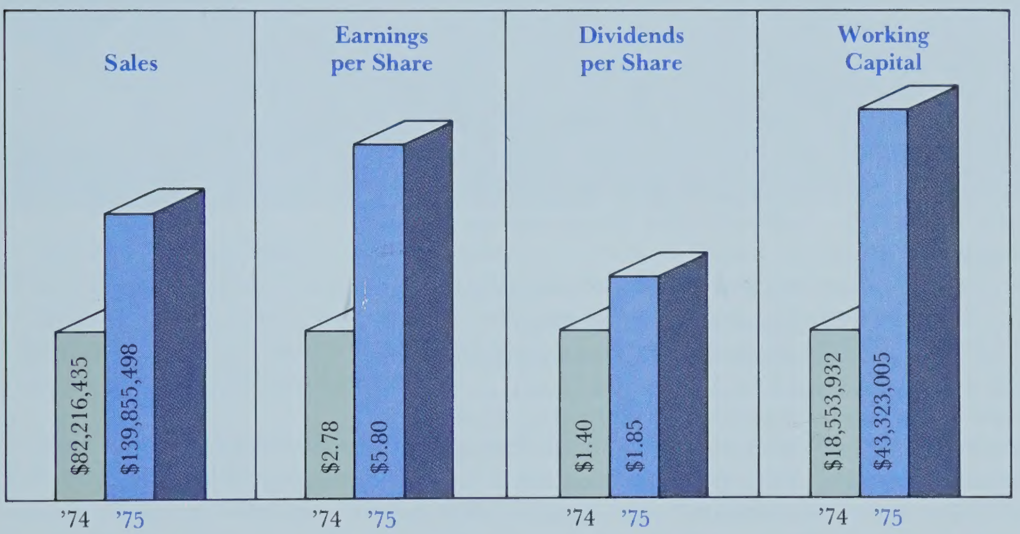
SBR

Stephen B. Roman

February, 1976.

Highlights

- ☐ Substantial increase in net earnings due to higher uranium deliveries and selling prices.
- ☐ Plant expansion to 7100 t.p.d. in the Denison mine completed and new pre-heater kiln of Lake Ontario Cement Limited in production.
- ☐ Significant oil well drilled in Spanish offshore concession.
- ☐ Major progress in exploration program and economic studies of Quintette metallurgical coal project in preparation for production decision in 1976.
- ☐ Dramatic increase in world uranium prices.



Contents

Directors' Report

On behalf of the Board of Directors, we are pleased to submit this Annual Report for the year ended December 31, 1975.

Financial – Record earnings, an increase in dividends paid to shareholders and a considerably improved financial position summarize the results for the year.

Consolidated net earnings of $26,518,000 are equal to $5.80 per share, an increase of 109% from restated consolidated net earnings of $12,692,000 equal to $2.78 per share in 1974. This is the fourth consecutive year of rising earnings and represents an increase of 233% from 1972.

A major factor in the 1975 rise in earnings was the commencement of deliveries of uranium under the contract with Empresa Nacional del Uranio, S.A. of Spain. Oil and gas operations provided a modest rise in revenue and operating earnings of Lake Ontario Cement improved slightly. Income from other investments declined.

The balance sheet reflects the improved financial position of the Company with working capital sharply higher at $43.3 million up from working capital of $18.6 million at the end of the previous fiscal year.

Your Board of Directors has maintained a dividend policy of $1.40 per share annually since 1966. In 1975, the quarterly rate was increased to 50 cents in the second quarter so that dividends for the year totalled $1.85 per share.

Uranium – World-wide, long term demand for uranium continues to exceed existing production capabilities. This situation is reflected in rising market prices for uranium and in the efforts of industrial nations and major corporations to find and develop new sources. Nuclear energy is still in an early stage of development and hesitations are inevitable as technology continues to improve.

Denison's experience is that uranium customers are anxious to assure their long-term needs. They have been willing to make advance payments to assure long-range development of the Elliot Lake mine and its related facilities. Your Company in 1975 received advance payments of $41 million from customers in Japan and Spain.

Your Company is working towards satisfying the federal government policy that nuclear fuel requirements for development of nuclear generating capacity in Canada be met and negotiations are underway for uranium sales in the Canadian market.

Export contracts now held by your Company assure continued operations to 1994 with sales commitments totalling 81,500,000 pounds of U_3O_8. In addition, deliveries are to be made to Spain in 1976 and 1977 from uranium accumulated in the Denison-federal government joint stockpile program.

To offset rising costs of production, inflation and the effects of environmental measures, which caused much concern in 1975, the Company successfully re-negotiated uranium prices under a number of its earlier supply contracts.

Three years ago a program of expansion of the Denison mine and mill was initiated. The first phase is largely completed and the mine and mill are in excellent physical condition. A shortage of trained manpower persists and training programs are being expanded.

Other Energy Resources – Your Company's commitment to grow as a supplier of energy raw materials extends from uranium into the fossil fuels – oil and gas, and coal.

For the past three years, rising Oil and Gas Division earnings have reflected higher prices. The reserve base has been declining. Discovery of oil on the Company's joint venture concessions in the Mediterranean Sea off the coast of Spain could significantly expand reserves, although further drilling is necessary to evaluate and delineate an oil pool.

The Coal Division will reach a significant milestone this year. Exploration, development and planning and economic feasibility studies on metallurgical coal properties in northeastern British Columbia will be completed to enable a possible development decision to be made in 1976.

Right — Stephen B. Roman
Left — John Kostuik

Cement — Lake Ontario Cement achieved record sales and operating earnings in 1975. This is a continuation of the growth trend demonstrated over the past five years. The installation of the new preheater kiln and associated equipment was completed in October and the new kiln is now in production. Dividends to shareholders were increased over those paid in the previous year.

Anti-Inflation Legislation — In October the Federal Government introduced the Anti-Inflation Act and Regulations. As a good corporate citizen, your Company is very concerned about inflation. We therefore support efforts to bring inflation under control. Nevertheless, at the time of writing this report, we are most concerned that the legislation, as now issued, is unclear in certain areas and appears to be deficient in others.

Outlook — Your Company has the financial resources to pursue economically worthwhile projects in uranium, coal, oil and gas and other minerals and to participate in other investment opportunities. We are in an excellent position to achieve positive steps in the growth of your Company.

On behalf of the Board of Directors

John Kostuik,
President and Chief
Operating Officer.

Stephen B. Roman,
Chairman and
Chief Executive
Officer.

Toronto, Ontario
February 11, 1976.

Uranium

The Denison uranium mine at Elliot Lake is in excellent condition as world consumption of nuclear fuel grows. Successful completion of a series of related projects provide the base for substantial increases in production and modernized and improved working facilities.

The major limitation on the uranium division is a common problem of the mining industry in Canada – availability and development of the necessary skilled manpower. Manpower problems in 1975 limited production to only a modest increase over the previous year. However, shipments were substantially higher as a result of sales from the stockpile built up since 1961 when Denison produced more than current sales in those years in efforts to provide continuing employment at Elliot Lake.

Since the start of operations, 17 years ago, the mine has treated about 28,000,000 tons of ore and produced over 72,000,000 pounds of uranium oxide and 625,000 pounds of yttrium oxide as a by-product in the later years.

With reserves available into the next century, projections and plans are already well underway to provide for future expansions in all phases of the operations, building on supply commitments which now provide a solid base for continuous operations to 1994.

Mining – With the completion of the Roman Island and Knowles Island air raises, the mine ventilation system is now capable of handling 1,400,000 cubic feet of air per minute, more than double previous air capacity. By using existing openings it can be expanded on demand to 2,000,000 cubic feet of air per minute.

Production and development were again concentrated to the east and west of the Axis "B" conveyor system located in the central portion of the orebody. Some pillar recovery was carried on in the northeast section. Twin exploration headings, being driven as a roadway and an airway to connect with the Stanrock workings to make use of the Stanrock shafts for ventilation, advanced about 500 feet in 1975. This project is expected to be completed in 1977.

To meet the need the training of manpower for underground mining and maintenance departments is being intensified. Mining contractors are supplementing the production force on development work. New mining methods and highly mechanized equipment continue to be introduced.

Milling – The expanded crushing plant and leaching circuit went on stream in May. At year end the expansion to 7,100 tons per day capability was complete.

Tonnage milled increased by 3.9% from 1974 to 1,339,969 tons. Grade of the ore dropped by 0.03 pounds per ton to 2.30 pounds. Production of uranium oxide increased by 3.7% to 2,911,000 pounds. The rare earth recovery plant operated as planned during the period and 77,000 pounds of yttrium oxide were produced.

Environmental Protection – The Company presented a brief to the Ham Commission which was formed to examine safety and health in Ontario mines. The Company's record and performance in the field of safety and health over the years were detailed and our future plans outlined. More stringent regulations in the areas of safety and health, on control of radiation, dust and water quality, are being implemented.

Community and Labour Relations – An acute housing shortage has developed in the Township of Elliot Lake because of the expanding mines. An employees' residence on the minesite has been renovated to accommodate about 75 employees. The Company has purchased three sites and other properties in the town, which will provide approximately 300 housing units when construction is completed in late 1976.

The continued rise in the cost of living resulted in increases in wages and salaries above the amounts provided in the collective agreements. The work force increased 17% during the year but did not reach the objective for increased production. Labour turnover rose to 5% per month, mainly because of high turnover in the accelerated trainee program. Agreement has been reached with the United Steelworkers of America, and confirmed by the membership, on a new Collective Agreement covering production and maintenance employees for the period from January 1, 1976 to September 30, 1978. The Agreement is subject to Anti-Inflation Board approval.

Large photo – operator's view of the ore face from the cab of a jumbo drill at the Denison Mine

Small photo – jumbo drill and operator's assistant, seen from the ore face

Oil & Gas

Small photo — a drilling crew in action

Large photo — roughneck checks drilling bit

Rising prices for oil and gas accounted for an increase in earnings of this Division in 1975. Oil production declined for a second year, largely as a result of government restrictions on exports to the United States. With higher prices and efforts to encourage energy conservation, Canadian demand also declined.

The Company's daily oil production rate at 5,319 barrels was down from 6,129 barrels in 1974. Natural gas production showed little change at 5,995 Mcf daily in 1975.

While average prices received increased 25% to $7.41 per barrel for oil from $5.94 in 1974 and 189% to 54.7¢ per Mcf from 18.9¢ per Mcf for natural gas in 1974, government royalties continued to increase.

Exploration Highlights — Important developments in exploration were the successful discovery of oil on the Company's Spanish permits and an acceleration and expansion of activity in the United States.

Alberta — Two exploratory and six development wells resulted in seven completions and one dry hole. The completions include two oil development wells at Virginia Hills, a two-zone gas success at Niton, a gas well at Farrell Lake, one oil well and one gas well at Judy Creek, and a gas well at Retlaw. In the Cessford area, four wells in which Denison participates were completed and tested. Cessford sales are expected to start later in 1976 after further development drilling and construction of production facilities. In the Edson area the gas conservation facility is being expanded.

British Columbia — Denison will participate in the drilling of one well in the Sierra area near Fort Nelson in early 1976.

United States — Denison participated in seven exploratory wells in Illinois, California, Texas and Tennessee. Successful wells were drilled in California, in southwest Texas and in Illinois. Four wells were dry. Significance of the completions is being determined.

Spain — Mediterranean Sea — Casablanca No. 1, the successful well, marks an important milestone in Denison's activities. This well probed to a depth of 10,000 feet and recovered oil at a total rate of 13,300 barrels daily from a series of tests. The oil is of high quality and will find a ready market. The well is in 436 feet of water on 168,730 acres of permits located about 75 miles southwest of Barcelona.

An initial follow-up will be drilled early in 1976. No problem is anticipated in developing drilling and production systems in this depth of water using established oil industry technology. Application was made to the Spanish authorities by Denison and its partners for five additional permit blocks. Four were awarded including two which offset the discovery acreage. Denison has a 10% interest in the new permits which comprise 385,156 acres.

Of the five offshore blocks already held jointly by Denison and Canada Northwest Land Limited, two now have been drilled at no cost to Denison. The first well following up seismic exploration, Rapita No. 1, was abandoned. Denison's interest in the two drilled blocks, including the discovery, is reduced from 50% to 25%. The drilling group has the right to earn similar 50% interests in the remaining three blocks by drilling further exploratory wells at no cost to Denison and has exercised its right to drill on the Peniscola Block 59 kilometers south of the Casablanca discovery.

United Kingdom — North Sea — Denison owns a 10% interest in Block 3/7 which directly offsets the Ninian Field. Block 3/7 is located 90 miles east of the Shetland Islands in water depths of approximately 450 feet. A farmout drilling agreement between the owners of Block 3/7 and a major oil company is now being negotiated under which one and possibly two wells would be drilled. This has been approved in principle by the British Energy Board.

Coal

Denison Mines became active in acquiring coal properties some six years ago. The Company now has accumulated large reserves of metallurgical and thermal coal in British Columbia and Alberta, and it has carried forward investigations on one property to the stage where detailed studies are being completed in preparation for a production decision.

Coal, like uranium, has attracted new interest in recent years because of the obvious world-wide needs for metallurgical coal and additional sources of energy. Coal developments are long term projects from the point of view of both the time necessary to reach production and their life as operating mines. Consumer requirements are also normally related to the need for long term assured supplies. Recent short term easing in prices for metallurgical coal reflects the temporary easing of production in the world steel industry. Interest in long term sources of metallurgical coal continues to be strong.

The coal base already established by Denison is of major size and long term importance to the Company. In British Columbia alone, in three major areas, the Company has demonstrated the presence of between 3 and 4 billion tons of potentially mineable metallurgical coal.

Small photo — senior geologist and his assistant surveying, aided by 2-way radio

Large photo — surveying a trench at the Quintette coal property.

British Columbia

Quintette — The Quintette area is the most advanced of the Company's coal projects. This area is considered to contain 2.8 billion tons of coal in place.

Denison and its partners, World Resources Company, a division of Alco Standard Corporation, Mitsui Mining Co., Ltd. and Tokyo Boeki Ltd., agreed to spend a total of $3 million in 1975 and 1976 on further field exploration and engineering, social, environmental and economic studies on the Quintette property. The objective of these studies is to be in a position to make a production decision in 1976.

The 1975 field exploration program identified approximately 100 million tons of surface mineable coal at economic stripping ratios in the Babcock and Murray areas of the Quintette property. Preliminary studies tested engineering and economic feasibility of an annual production level of 5 million tons. Results indicate that such a development could be viable, provided that satisfactory arrangements can be made for the necessary infrastructure to support the project, such as rail and highway access, port and bulk loading facilities, power supply and a new town in the area.

Saxon — Detailed geological mapping was done on the Saxon property to improve the structural and stratigraphic interpretations. This work was successful in identifying a possible 120 million tons of surface mineable coal. This increases the potential reserves at Saxon to 500 million tons of coal in place.

Belcourt — A similar geological mapping program was carried out on the Belcourt property, with encouraging results. While interpretation of the data is not yet complete, it is clear that this program has confirmed and extended the 300 million tons of possible reserves at Belcourt. A significant portion of these reserves appears to be suitable for surface mining.

Alberta

Development of new projects in Alberta has been delayed pending completion of studies by the Alberta government which will allow formulation of a firm policy for development of coal reserves in the province.

Wildhay — Discussions continued with several potential partners for development of the Wildhay property. This property has special merit in that it is close to existing facilities such as railway, highway and townsite, and could be developed quickly at a relatively low production level.

Coalspur — Discussions are in progress with potential partners regarding development of the Coalspur property for production of thermal coal. There is an expanding market for thermal coal for use in electric generating plants.

Whitecourt — Coal leases were applied for covering 19,600 acres in the Whitecourt area of Alberta. Leases have been granted to Denison covering 10,800 acres in this potential thermal coal area and the remaining 8,800 acres remain under application.

Industrial

Lake Ontario Cement Limited

Record sales, operating earnings and higher dividends combine for a satisfactory performance by Lake Ontario against a background of economic recession and sharply higher costs, particularly for fuel and power.

Earnings — Consolidated net earnings before extraordinary item for 1975 were $3,324,809 (77.3 cents per share), an increase of 11% over the restated 1974 level of $2,998,011 (69.7 cents per share). An extraordinary gain on the sale of land of $482,226 increased the restated 1974 earnings to $3,480,237 (80.9 cents per share). Earnings were restated to include pro-rated payments from a legal settlement in the after-tax amounts of $575,000 for 1975 and $255,000 for 1974. Consolidated sales totalled $41,832,857, up 6% from $39,398,521.

Operations — Volume of shipments in 1975 of Lake Ontario's products — cement, ready-mix concrete, concrete block and sand and gravel — were generally close to the record levels achieved in 1974. Cement and concrete product shipments in Ontario were strong. Recession in the United States adversely affected exports.

The new preheater kiln system at the Picton cement plant was completed and brought into production. This 850,000 tons per year system achieves a one-third reduction in normal fuel requirements compared with the technology used in other kilns at this plant. With higher prices for fuel, the efficiency of this expansion will prove especially helpful. This facility doubles capacity of the Picton plant to manufacture cement clinker, a semi-finished product requiring grinding with gypsum to make Portland cement. Cement grinding capacity will be added when required to meet sales growth.

There is a large market for clinker as well as cement, as demonstrated by the three year $20 million clinker export contract with Martin Marietta Corporation. Shipments to Martin Marietta start in April, 1976. While this contract will take up a substantial portion of Picton's expanded clinker capacity, adequate capability is available to serve expected growth in cement markets.

In August, 1975, Lake Ontario acquired the fixed assets of R.V.K. Ready-Mix Limited, which has more than $2 million in annual sales of ready-mix concrete in the eastern half of Metropolitan Toronto. In addition, a new ready-mixed concrete plant was opened in Oshawa.

Capital Expenditures — In 1975, Lake Ontario Cement spent a record $15,434,442 on property, plant and equipment compared with $6,723,986 in 1974. The plant expansion at Picton required the major portion of the $14,041,826 spent in the Cement Division. Some $1,392,616 was spent by the Concrete Products Division.

Outlook — While the economic recession in the U.S. appears to be over, the outlook for the Canadian economy, which did not suffer the same level of recession as the U.S., remains uncertain. In general, Lake Ontario Cement management is cautiously optimistic and is looking for improvements in business volume in 1976.

Reiss Lime Company of Canada, Limited

Earnings improved 30% reflecting increases in lime production, sales and product prices despite substantial increases in production costs, particularly for fuel. Reiss Lime, in which Denison has a 49% interest, is considering expansion of lime production to meet anticipated growth in demand as a result of greater production by uranium mines in the Elliot Lake uranium area. Reiss Lime supplies lime to mining, pulp and paper and other industries in northern Ontario from a plant on the Trans-Canada highway midway between Sudbury and Sault Ste. Marie. A deep-water dock at Serpent Harbor near Spragge, Ontario handles bulk material for this plant and other customers. The outlook for 1976 is for increased activity in both lime and dock operations.

Large photo — operator's view of the interior of the new kiln at Picton cement plant

Small photo — technician checks flame pattern inside kiln

Exploration

Uranium, a field of special expertise for your Company, has become the focus for Denison mining exploration throughout the world. Denison, anticipating the growing need for new sources of uranium, has been expanding its exploration activities, especially in Canada and the United States.

Canada — Uranium exploration projects are underway in two Quebec areas, in Elliot Lake, Ontario, and two western provinces.

In Quebec, the two projects involve application of pattern diamond drilling to explore prospects for open-pit deposits. Results are being evaluated. One project is a joint venture with Imperial Oil in the Johan Beetz area. The second project is in the Mont Laurier area. This property was optioned from Canadian Johns-Manville.

In western Canada, large field programs are planned for the coming season on 26,800 acres acquired in the Key Lake area of Saskatchewan where a uranium discovery has been reported as well as on 70,000 acres of exploration permits obtained in Alberta, south of the west end of Lake Athabasca.

In the Elliot Lake area of Ontario an extensive program is planned on claim groups outside the mine area. Under an agreement with Uranium Exploration Company Limited of Japan, some $1,000,000 will be spent up to June, 1977 to explore 158 claims in several groups.

United States — Drilling is planned on a 3,000 acre property staked in the Wind River Basin in Wyoming. Further drilling on the Powder River Basin property held jointly with Cabot Corporation intersected uranium mineralization. However, the results did not add appreciably to the already inferred reserves of 700,000 lbs. uranium oxide in material averaging 0.126% U_3O_8.

Exploration continues in eastern New York state under a joint venture agreement with Pacific Tin Consolidated Corporation. A zinc anomaly drilled in 1975 proved disappointing.

Other — Examinations were made of uranium prospects in two foreign countries and discussions have been held with a view to participating in the exploration and development of these properties.

Exploration on base metal prospects optioned in 1974 in Mexico and the Philippines was considered unsuccessful and both options were dropped.

Left — geologist mapping on a Denison property

Investments

☐ Consolidated net income of International Mogul Mines Limited in the nine months ended September 30, 1975 was $873,000 compared with a loss of $6,552,000, after extraordinary write-down, for the same 1974 period. Management is continuing its policy of disposing of assets to generate funds for reduction of bank loans.

☐ Profit from operations before amortization of deferred expenses and interest of Black Hawk Mining Ltd. was $258,000, down $1,276,000 from 1974, attributable mainly to lower metal sales and prices. Due to the stockpiling of some zinc concentrate production, short term borrowings from Denison totalling $433,000 at December 31, 1975 were necessary. Drilling to further define mineral bodies in the Carleton zone south of the shaft continued, but development planning has been deferred until market conditions improve.

☐ Net income of Pacific Tin Consolidated Corporation for the first nine months of 1975 was $991,000, down $813,000 over the same 1974 period. Latest results reflect lower tin prices and higher operating costs, while 1974 results included gains of $350,000 from the sale of mineral interests.

☐ Growth of Standard Trust Company was sustained with total assets at December 31, 1975 of $99.9 million, an increase of 16% over the preceding year. Net earnings in 1975 were $402,000, an increase of $50,000.

Subsidiary		*Other Investments*		*Exploration and Development*	
Lake Ontario Cement Limited	*53.7%*	*International Mogul Mines Limited*	*8.3%*	*Argosy Mining Corporation Limited*	*37.1%*
Primeau Argo Block Co. Limited	*50%**	*Pacific Tin Consolidated Corporation*	*36.8%*	*Black Hawk Mining Ltd.*	*32.5%*
Rochester Portland Cement Corp.	*100%**	*Reiss Lime Company of Canada, Limited*	*49.0%*	*Consolidated Rexspar Minerals & Chemicals Limited*	*46.9%*
		Standard Trust Company	*44.1%*	*Lakehead Mines Limited*	*38.6%*
				Quintette Coal Limited	*38.2%*
				Vespar Mines Limited	*38.6%*

** Percentage held by Lake Ontario Cement Limited*

Left — aerial view of the plant and deep water dock of Reiss Lime at Serpent Harbor, Ont.

Financial Review and Analysis of Operations

The operating and financial history of the Company for the years 1971 to 1975 is summarized in the Five Year Summary included in this Report at page 23.

Sales — Sales increased significantly in each of the last three years. In 1975 sales were up by $58 million or 70% while sales increases in 1974 and 1973 were 17% and 22% respectively. Main contributing factors to the sales increase in 1975 were higher uranium deliveries and selling prices. The increases in 1973 and 1974 were evenly divided between minerals and cement.

Earnings — During the period from 1971 to 1973, uranium deliveries were at a constant level with 50% of deliveries being made under a joint venture contract with the Canadian government. This contract was arranged to stabilize production at an economic level at the Elliot Lake mine and to assure continued employment during a period of depressed demand for uranium which threatened to close the Denison mine.

The 24% improvement in net earnings in 1973 over the preceding year was mainly attributable to higher oil and gas net revenue and an improved earnings contribution from Lake Ontario Cement Limited, a 53.7%-owned subsidiary.

In 1974, uranium deliveries to Japanese utilities increased by 1 million pounds over the previous year, while delivery of approximately 400,000 pounds of uranium completed the commitment under the Canadian government joint venture stockpile. The changed mix of uranium deliveries and continued strong growth in oil and gas net revenue were the principal factors in a 30% improvement in net earnings in 1974 over 1973.

Net earnings in 1975 amounted to $26,517,784, an increase of 109% over 1974. This increase is accounted for by increased deliveries from the joint Denison/federal government stockpile, higher prices, and delivery of an initial 2 million pounds under a contract with Empresa Nacional del Uranio, S.A. This latter delivery had been accumulated in stockpile since 1961 as Denison produced more than required to meet current sales requirements in its effort to provide continuing employment at Elliot Lake.

During 1974 and 1975 rapidly increasing material, energy and labour costs, combined with labour slowdowns and work stoppages, more than offset improvements in operating efficiencies which were achieved. In addition, application by government agencies of new, rigid environmental standards relating to the health, safety and working conditions of miners resulted in higher capital and operating costs and lower productivity. To offset the severe shortage of experienced miners and tradesmen, training programs were expanded during this period at considerable cost. The productivity of newly-trained personnel is, however, lower, with a consequent increase in production cost.

Taxes — Income and mining taxes in 1975 amounted to $24,907,000, an increase of 345% over the amount incurred in 1974. The effective corporate income and mining tax rate increased from 28.8% in 1974 to 47.0% in 1975 due principally to higher Ontario mining tax rates.

Financial Position — At December 31, 1975, the Company's financial position was the strongest it has ever been. Increased cash flow from operations combined with advance payments under uranium sales contracts resulted in a significant improvement in working capital which amounted to $43,323,005 at December 31, 1975, an increase of $24,769,073 over the preceding year.

Capital Expenditures — In 1975, investment in fixed assets amounted to $26,361,343, all of which was financed from working capital. This is a record high for the past five years and compares with $12,458,419 in 1974. Expenditures included milling plant expansion and underground development projects at the Denison mine, completion of a kiln expansion by Lake Ontario Cement Limited, and essential facility renewals and improvements.

Dividends — The annual dividend rate was increased from $1.40 to $2.00 per share effective with the quarterly dividend paid in June, 1975, and brought total dividend payments for the year to $8,451,209 or $1.85 per share. This represents the first increase in dividends to shareholders since 1966 and reflects the Company's increased earnings in 1975 and the strong future outlook for your Company's operations.

Accounting Policies

For the Year Ended December 31, 1975

The accounting policies of the Company and its subsidiaries are in accordance with generally accepted accounting principles. Outlined below are those policies considered particularly significant for the Company.

Basis of Consolidation — The consolidated financial statements include the accounts of the Company and all subsidiaries. Investments in effectively controlled companies are accounted for by the equity method.

Translation of Foreign Currencies — Foreign currencies have been translated to Canadian dollars as follows: revenue, expenditure and non-current assets and liabilities at approximate rates in effect at dates of transactions; current assets and current liabilities at rates in effect at the end of the year.

Inventories — Concentrates and finished and semi-processed cement products are valued at average cost of production. Operating supplies are valued at average cost. In all material respects, inventory costs are lower than either replacement cost or net realizable value.

Long-Term Investments — The investment in shares of effectively controlled companies is carried at cost adjusted by the Company's share of their earnings or losses since effective control was acquired and, in the case of mining companies in the exploration stage, reduced by charges against earnings to the extent that the excess (attributable to mining properties) of the carried value of investment in these companies over the underlying net assets is considered to have declined. To be consistent with the Company's own practice, exploration costs which are deferred in the accounts of these companies in the exploration stage are treated as a current expense in determining the Company's earnings on the equity basis. Other long-term investments are written down to their inherent worth when there is evidence of a permanent decline below their carried value.

Fixed Assets — Fixed assets, including betterments to existing facilities, are carried at cost. When such assets are retired or otherwise disposed of, the cost of the assets and related accumulated depreciation are removed from the accounts. Any gain or loss on retirements is reflected in the earnings for the year.

Depreciation, Depletion and Amortization — Plant and equipment of the companies are being depreciated, generally on a straight-line basis, over their estimated useful lives except that plant and equipment at the Company's mine properties acquired before 1965 were written off in prior years.

Development costs for the purpose of preparing mining areas beyond current requirements have been deferred, as have development costs relating to the bringing into production of a mine owned by an effectively controlled company. These development costs together with the cost of producing mining claims and quarries are being amortized by unit of production methods.

Petroleum and natural gas lease acquisition costs and development expenditures are amortized by the unit of production method based on proven reserves. Unamortized acquisition and development costs of leases surrendered, abandoned or otherwise disposed of are charged against earnings in the year of disposition.

The excess of the Company's investment in Lake Ontario Cement Limited over its share in the underlying equity at date of acquisition is being amortized over a 25-year period.

Income Taxes — The Company and its subsidiaries follow the tax allocation method of accounting whereby the provision for income tax is based upon income reported in the accounts with the exception of available capital cost allowances of a predecessor company as outlined in note 4(c).

The benefits arising from the investment tax credit provisions of the Income Tax Act are treated as a reduction of the current year's income tax provision.

Consolidated Balance Sheet

Denison Mines Limited (and its subsidiaries) as at December 31, 1975

Assets	**1975**	**1974**
Current Assets		
Cash and short-term deposits	$ 23,752,440	$ 5,989,155
Marketable securities — at market which is lower than cost	4,197,826	4,553,304
Accounts receivable	46,759,480	22,482,919
Concentrate inventories	14,152,787	22,400,024
Cement product inventories	2,445,270	2,053,352
Supplies and prepaid expenses	12,130,430	6,345,277
	103,438,233	63,824,031
Amount Due on Settlement of Legal Action (note 9)	900,000	1,800,000
Long-Term Investments (note 2)	26,764,483	28,203,481
Fixed Assets (note 3)	87,631,066	66,385,197
Excess of Cost of Subsidiaries Over the Net Book Value of their Assets, Less Amortization	601,803	648,093
	$219,335,585	$160,860,802

Auditors' Report

To the Shareholders of Denison Mines Limited:

We have examined the consolidated balance sheet of Denison Mines Limited and its subsidiaries as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. For Denison Mines Limited and those other companies of which we are the auditors and which are consolidated or are accounted for by the equity method in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For other companies, consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of Denison Mines Limited and its subsidiaries as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada, January 31, 1976.

COOPERS & LYBRAND,
Chartered Accountants.

Liabilities	1975	1974
Current Liabilities		
Bank loans — secured	$ 8,500,000	$ 17,800,000
Accounts payable and accrued charges	19,439,620	16,091,012
Dividends payable	384,345	495,827
Income and mining taxes payable (note 4)	22,033,839	7,213,460
Long-term debt due within one year	125,424	123,800
Current portion of deferred cost reduction, before income taxes (note 9)	592,000	1,046,000
Advances on concentrate sales contracts	9,040,000	2,500,000
	60,115,228	45,270,099
Deferred Cost Reduction, Before Income Taxes (note 9)	—	592,000
Advances on Concentrate Sales Contracts	26,897,174	7,497,993
Long-Term Debt (note 5)	16,441,370	15,822,044
Minority Interest in Subsidiary Companies	13,828,577	12,567,505
Deferred Income Taxes (note 4)	10,883,500	6,008,000
Shareholders' Equity		
Capital Stock		
Authorized — 6,000,000 shares of $1 par value each		
Issued and fully paid — 4,568,221 shares	4,568,221	4,568,221
Contributed Surplus	7,937,764	7,937,764
Retained Earnings	78,663,751	60,597,176
	91,169,736	73,103,161
	$219,335,585	$160,860,802

Signed on behalf of the Board

E. B. McConkey, Director

John C. Puhky, Director

Consolidated Statement of Earnings and Retained Earnings

Denison Mines Limited (and its subsidiaries) for the year ended December 31, 1975

	1975	1974
Gross Revenue		
Minerals (uranium, yttrium, oil & gas)	$98,022,641	$42,817,914
Cement and cement products	41,832,857	39,398,521
	139,855,498	82,216,435
Production, Exploration and Administration Costs	80,660,566	56,848,262
	59,194,932	25,368,173
Revenue from Investments (note 2 (f))	622,752	723,084
Net Earnings Before Items Shown Below	59,817,684	26,091,257
Deduct: Depreciation, depletion and amortization	5,299,003	5,103,568
Interest on long-term debt	1,553,513	1,361,112
Interest on prior years' income taxes under appeal	—	205,000
	6,852,516	6,669,680
	52,965,168	19,421,577
Income and mining taxes	24,907,000	5,600,000
Earnings Before Minority Interest and Extraordinary Gain	28,058,168	13,821,577
Minority Interest	1,540,384	1,388,837
	26,517,784	12,432,740
Extraordinary Gain on Disposal of Property Net of Income Taxes and Related Minority Interest	—	258,811
Net Earnings for the Year	26,517,784	12,691,551
Balance of Retained Earnings — Beginning of Year as Adjusted (note 9)	60,597,176	54,301,134
	87,114,960	66,992,685
Dividends	8,451,209	6,395,509
Balance of Retained Earnings — End of Year	$78,663,751	$60,597,176
Earnings Per Share for the Year Before Extraordinary Gain	$5.80	$2.72
Earnings Per Share for the Year	$5.80	$2.78

Consolidated Statement of Changes in Financial Position

Denison Mines Limited (and its subsidiaries) for the year ended December 31, 1975

	1975	1974
Sources of Working Capital		
Current operations —		
Earnings for the year before minority interest and extraordinary gain	$28,058,168	$13,821,577
Add: Items which did not require the use of working capital in the year —		
Depreciation, depletion and amortization	5,299,003	5,103,568
Deferred income taxes	4,892,000	2,010,000
Provision for decline in value of investments	2,946,141	—
Loss (income) determined by the equity method after dividends and interest received	400,230	(595,348)
Other	(147,846)	(47,065)
Total from current operations	41,447,696	20,292,732
Net advances on concentrate sales contracts	19,399,181	(132,037)
Concentrate inventories established in 1974 to be current because of developments in the industry	—	20,178,756
Realization of long-term investments	297,601	1,023,960
Issue of 11% mortgage on purchase of housing units	744,750	—
Issue of Lake Ontario Cement Limited debenture	—	15,500,000
Net effect on working capital of settlement of legal action (note 9)	308,000	(146,000)
	62,197,228	56,717,411
Uses of Working Capital		
Additions to fixed assets	26,361,343	12,458,419
Repayment of Lake Ontario Cement Limited debenture	—	9,917,000
Reduction of other long-term debt	125,424	123,800
Purchase of long-term investments	2,191,172	3,279,686
Dividends to minority shareholders of Lake Ontario Cement Limited	299,007	239,214
Dividends	8,451,209	6,395,509
	37,428,155	32,413,628
Increase in Working Capital	$24,769,073	$24,303,783

Notes to Consolidated Financial Statements

For the Year Ended December 31, 1975

1. Accounting Policies

The information on page 15 presents a summary of significant accounting policies and is an integral part of these financial statements.

2. Long-term Investments

(a) This item comprises:

	1975	1974
Investment in companies accounted for by the equity method		
Shares — note 2(b)	$ 4,793,664	$ 4,916,092
Debentures — note 2(e)	1,915,875	1,935,375
Loans	1,099,247	340,160
	7,808,786	7,191,627
Portfolio investments, at or below cost		
Shares — note 2(c)	18,228,646	20,109,985
Secured loans	727,051	901,869
	18,955,697	21,011,854
	$26,764,483	$28,203,481

(b) Included in shares of companies accounted for by the equity method are shares carried at $2,621,221 with a quoted market value of $2,901,469 (1974 — $2,584,307 and $1,912,594 respectively). The cost of investment in shares of companies accounted for by the equity method approximates the Company's share of the underlying net assets of these companies at dates of acquisition less amounts written off.

(c) Portfolio investments include shares carried at $18,056,051 with a quoted market value of $14,082,404 (1974 — $19,611,440 and $14,359,768 respectively).

(d) The quoted market values referred to above do not necessarily reflect the realizable value of these holdings which may be more or less than that indicated by market quotations.

(e) Debentures consist of 6½% Series A Black Hawk Mining Ltd. debentures (face value $1,965,000) due June 30, 1974. Black Hawk Mining Ltd. and its wholly-owned subsidiary have assigned to the Company (as security for the above principal, plus interest of $1,976,727 from January 1, 1967 which will be recorded in the accounts of the Company as received) all net monies which may be received by them from production from certain mineral properties in Maine which were brought into production late in 1972.

(f) Revenue from investments is comprised of the following:

	1975	1974
From effectively controlled companies:		
Income (loss) determined by the equity method	$ (43,822)	$ 686,070
Gain on sale of 16.7% of the shares held in a coal company	1,045,360	
From portfolio investment —		
Dividends and interest	1,035,646	747,445
Provision for decline in value including $2,541,713 in respect of International Mogul Mines Limited	(2,946,141)	
Income (loss) from long-term investments	(908,957)	1,433,515
Income (loss) from marketable securities and short-term deposits	1,531,709	(710,431)
	$ 622,752	$ 723,084

3. Fixed Assets

Fixed assets are comprised of the following:

	Cost at December 31 1975	Accumulated depreciation and depletion to December 31 1975	Amount written off in 1975
Land	$ 1,671,467		
Mining and oil properties	11,997,979	$ 3,782,408	$ 535,179
Plant and equipment	143,497,059	87,931,155	4,262,321
Construction in progress	10,718,390		
	167,884,895	91,713,563	4,797,500
Deferred development at amortized cost	11,459,734		501,503
	$179,344,629	$91,713,563	$5,299,003

Plant and equipment are depreciated at annual rates which vary from 2½% to 33⅓%. Included in plant and equipment at December 31, 1975 are fully depreciated assets of $49,148,903. Accumulated depreciation and depletion at December 31, 1974 amounted to $87,800,827.

4. Income Taxes

(a) During the year settlement of federal income tax re-assessments for the years 1962 to 1970 for the Company and to 1969 for certain wholly-owned subsidiary companies was proposed by the Company. The Company understands that regional officials of the Department of National Revenue and the Department of Justice have recommended acceptance of the settlement proposal. As at December 31, 1975 revised re-assessments evidencing such settlement had not been received. It is anticipated that provincial re-assessments in respect of the same issues in the same years may be settled in a similar manner. Adequate provision for income tax liabilities and interest thereon arising from such proposed settlement was made in prior years.

(b) Unrecorded deferred income taxes in respect of timing differences related to depreciable assets and oil and gas intangibles prior to adoption of the tax allocation method of accounting amount to $9,336,000.

(c) The fixed assets of a predecessor company had a value for tax purposes only in excess of the net book value of such assets as at the date of amalgamation. This excess originated during the tax-exempt period of production from the mine of the predecessor company and has been applied in part by the Company to reduce income for tax purposes through depreciation claims in the current year. In accordance with an accounting practice generally accepted in the mining industry, the resulting reduction is reflected as a reduction in the provision for income taxes used in determining earnings before extraordinary items rather than as an extraordinary credit to earnings. As a result of claiming the maximum claimable portion of this excess in the current period, the provision for income taxes otherwise required in the accounts was reduced by approximately $860,000 or $0.19 per share. Approximately $6,784,000 of this excess remains to be claimed for tax purposes in the future.

5. Long-term Debt

This item comprises:

	1975	1974
Lake Ontario Cement Limited		
9¾% debenture due September 30, 1994	$15,500,000	$15,500,000
8% to 9% mortgages due in 1977	237,044	275,844
8% notes repayable annually to January 31, 1976	85,000	170,000
Other		
11% mortgage due 1981	744,750	
	16,566,794	15,945,844
Repayable within one year	125,424	123,800
	$16,441,370	$15,822,044

The debenture is secured by a first mortgage on the manufacturing facility in Picton and by a floating charge on substantially all other property, plant and equipment of Lake Ontario Cement Limited. Aggregate repayments in 1977 are $1,060,056, in 1978 are $862,021, in 1979 are $862,255 and in 1980 are $862,516.

6. Commitments and Contingencies

(a) Major capital projects authorized to December 31, 1975 are currently estimated to cost approximately $22,000,000 of which $11,500,000 has been expended.

(b) Four months after the amalgamation of Denison Mines Limited and Stanrock Uranium Mines Limited, a former shareholder of Stanrock commenced an action, on behalf of all the former shareholders of Stanrock, in New York State against the Company and other defendants claiming damages in the amount of $50,000,000. On May 1, 1974 two of the plaintiff's four claims were dismissed on defendants' motion for summary judgment and the remaining claims for damages total less than $10,000,000. On that date, plaintiff's motion for summary judgment was denied. In the opinion of management and counsel for the Company, there are good and valid defences to this action.

7. Anti-Inflation Legislation

The companies are subject to restraint of profit margins, prices, dividends and compensation under the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975. The companies also appear to be subject to proposed federal legislation assessing a levy on certain export profits, which levy would be substantially refundable over a period of years subject to certain conditions. The impact of this recent and proposed legislation on the companies' profit margins, prices, compensation arrangements and retainable export profits cannot be precisely determined at the present time because of uncertainties with respect to the application of certain provisions and definitions in the Act and Regulations and uncertainties regarding the final form of the export levy legislation. Such legislation is not expected to have a significant effect on the financial position and results of operations of the companies in 1975.

Under this legislation, the amount of dividends which the Company can declare or pay will be limited to an aggregate of $1.50 per share in the first three quarters of 1976.

8. Remuneration of Directors and Senior Officers

Direct remuneration received by the directors and senior officers in 1975 amounted to $945,810 (1974 – $461,973).

9. Settlement of Legal Action

During the year, Lake Ontario Cement Limited obtained a settlement of a legal action relating to a contract for the long-term supply of fuel to the company's plant in Picton. The settlement provided for the payment to the company of $2.7 million in instalments of $900,000 on January 15 in each of 1975, 1976 and 1977, of which the first instalment has been received. The settlement has been accounted for by allocating the proceeds, net of expenses, income taxes and minority interest, over the years to which the settlement relates.

Consolidated net earnings are accordingly increased in 1975 by $309,000, in 1974 by $137,000 and in prior years by $150,000; a further $175,000 remains to be reflected in consolidated net earnings in 1976. The opening balances of consolidated retained earnings at January 1, 1975 and 1974 have been adjusted to reflect such increase in the earnings of the prior years in the amounts of $287,000 and $150,000 respectively.

10. Reclassification

Certain amounts in the 1974 consolidated financial statements have been reclassified to conform to the presentation adopted in 1975.

Five Year Summary

Denison Mines Limited and its Subsidiaries

Production Data	1975	1974	1973	1972	1971
Tons milled	1,340,000	1,290,000	1,432,000	1,454,000	1,387,000
Average grade (lbs. U_3O_8 per ton)	2.30	2.33	2.57	2.87	3.20
Pounds U_3O_8 produced	2,911,000	2,807,000	3,424,000	3,914,000	4,256,000
Crude oil (bbls.)	1,941,000	2,237,000	2,386,000	1,919,000	1,572,000
Natural gas (mcf)	2,188,000	2,236,000	2,103,000	1,773,000	1,118,000

Financial Data*					
Sales	$139,855,498	$82,216,435	$70,354,258	$57,725,423	$56,044,544
Net earnings for the year	26,517,784	12,691,551	9,866,833	7,951,786	7,407,789
— per share	5.80	2.78	2.16	1.74	1.62
Dividends paid	8,451,209	6,395,509	6,395,509	6,264,584	6,264,584
— per share	1.85	1.40	1.40	1.40	1.40
Working capital (deficiency)	43,323,005	18,553,932	(5,749,851)	(2,856,699)	3,937,643
Additions to fixed assets	26,361,343	12,458,419	9,232,462	4,418,071	3,730,970
Shareholders' equity	91,169,736	73,103,161	66,807,119	63,335,660	61,648,458
— per share	19.96	16.00	14.62	13.86	13.49

*Restated where applicable to reflect the amalgamation in 1973.

Officers and Corporate Staff

Stephen B. Roman
Chairman of the Board

John Kostuik
President

E. B. McConkey
Vice-President, Finance

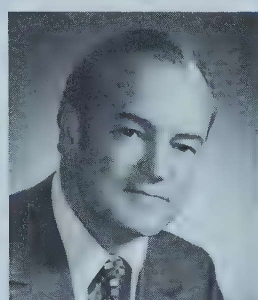
C. H. Frame
Executive Vice-President, Mining Operations

M. J. de Bastiani
Vice-President, Uranium Operations

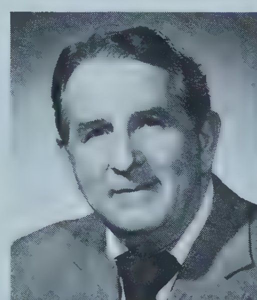
C. D. Parmelee
Vice-President, Corporate Affairs

R. C. Hermann
Vice-President, Coal Operations

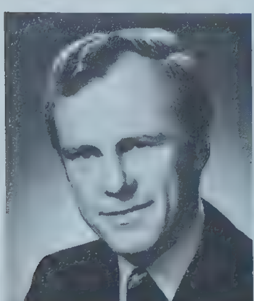
L. L. Samoil
Vice-President, Oil and Gas Operations



W. N. O'Brien
Vice-President, Minerals and Marketing



V. L. Chapin
Vice-President



P. H. Palmer
Treasurer

E. L. Evans
Director of Exploration

A. F. Risso
Comptroller

K. H. Bates
Secretary

Printed in Canada

Directors

Donald S. Anderson

Charles F. W. Burns

M. J. de Bastiani

F. H. Jowsey

John Kostuik

E. B. McConkey

A. Hamilton McDonald

Edward A. Merkle

John A. Mullin, Q.C.

Joseph A. Patrick

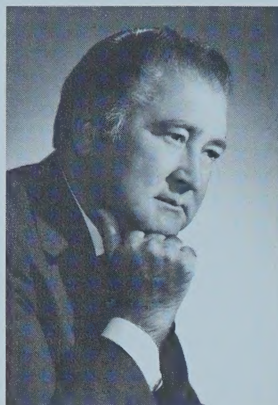
John C. Puhky

Stephen B. Roman, K.C.S.G., LL.D.

George Rowe, Jr.

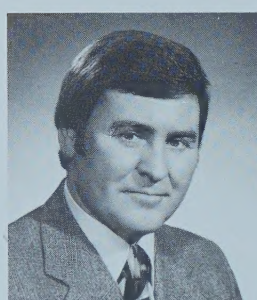
B. E. Willoughby

Officers and Corpor



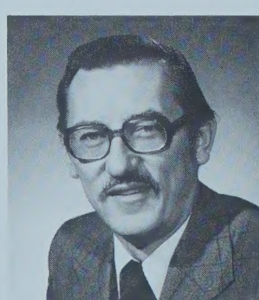
Stephen B. Roman
Chairman of the Board

E. B. McConkey
Vice-President, Finance

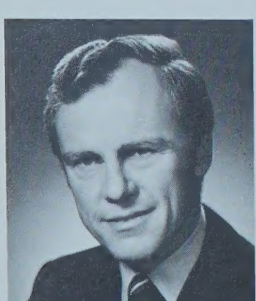


C. H. Frame
Executive Vice-President, Mining Operations

R. C. Hermann
Vice-President, Coal Operations



L. L. Samoil
Vice-President, Oil and Gas Operations



P. H. Palmer
Treasurer

E. L. Evans
Director of Exploration

Head Office
4 King Street West
Toronto, Ontario M5H 1C2

Mine Office
P.O. Box B-2600
Elliot Lake
Ontario P5A 2K2

Calgary Office
444 – 5th Avenue S.W.
Suite 1500
Calgary
Alberta T2P 2T8

Denison Mines (U.S.) Incorporated
1776 Lincoln Street
Suite 810
Denver, Colorado 80203

Registrar and Transfer Agent
Guaranty Trust Company of Canada
Toronto, Ontario
Montreal, Quebec
Calgary, Alberta

Auditors
Coopers & Lybrand
Toronto, Ontario

Bankers
The Royal Bank of Canada
Toronto, Ontario

Solicitors
Fraser & Beatty
Toronto, Ontario